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AGENDA ITEM 7

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Enterprise Transition Management Project Update
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

BACKGROUND

The Enterprise Transition Management Project (ETM) Team is pleased to provide you with materials that demonstrate the key relationships between two significant projects: the Pension System Resumption Project (PSR) and its key sister project, ETM.

Over the last three decades, CalPERS has evolved from a pension fund with less than 500,000 members and a \$3.9 billion portfolio supported by 300 employees to one with over 1.5 million members and a \$240 billion portfolio supported by over 2,000 employees. During this period, CalPERS has built automated systems to support the lines of business and eliminate some of the manual processes. However, due to the technical challenges driven by systems built around organizational “silos”, aging technology and the inability to respond to stakeholder needs in timely manner, CalPERS initiated a major effort in 2004 to replace its legacy systems. Following a comprehensive competitive procurement process, CalPERS selected a systems integrator to deliver a new technology solution; the PSR contract and a project budget was approved by the board in October 2006.

PSR will consolidate over 49 disparate technology systems whose existence are the direct result of the growth and change at CalPERS over the past 30 years. However, to be successful, CalPERS must change its business processes to work within the new solution. In support of that business transformation effort, the Board of Administration (Board) approved ETM in 2007 to assist in preparing CalPERS and its staff for PSR. Presented to you today are the highlights of the Conceptual Organization Design Deliverable.

DISCUSSION

CalPERS needs tools, processes and an organization structure that enables staff to meet the Board's expectations, which would include customer service as a priority. PSR will provide the foundation and processes to accomplish this. However a customer-centric organization structure is also necessary to provide the desired level of service. CalPERS needs an organization structure that supports not only PSR, but also the ability to provide superior service. An improved organization structure should:

- Be founded on the new business processes which will be introduced by PSR
- Fully leverage PSR
- Optimize service delivery improvements initiated by PSR
- Allow the pursuit of strategic opportunities
- Set CalPERS up for continued growth.

With this in mind, CalPERS has embarked on the steps to investigate and develop an organization structure that will meet these needs. This early stage in organization structure is called Conceptual Organization Design. In January of 2008, the ETM Project presented to the CalPERS Board of Administration a high-level overview of the organizational design methodology. This presentation also addressed how this will influence the training plan for the organization. This presentation can be viewed as Attachment A.

Summary of Conceptual Organization Design (OD) Process

In order to get a complete understanding of the current organization, ETM initiated the organization design process in September of 2007. A thorough assessment was conducted of the present CalPERS organization structure and how work is currently divided and completed.

In order to understand the business drivers for change, ETM staff reviewed PSR documentation and conducted one-on-one interviews with the entire CalPERS Executive Team. The ETM Project also considered external leading organization design practices.

The next step was the development of CalPERS Conceptual Organization Design Guiding Principles. Guiding Principles are foundational criteria that help drive the organization design process. They are used to inform the design of:

- The overall organizational unit structure (e.g., Branch, Division),
- Organization and/or work environment characteristics (e.g. span of control, level of specialization, authority and responsibility, and management layers)
- Career ladders and how roles of employees link to the broader organization structure

The following four Guiding Principles identified by the Executive Team are:

1. Accurate, reliable, and efficient integrated service that customers find easy to use and of high value
2. Defined governance process for decisions and priorities
3. Balance and flexibility across process and function
4. Accountability, analytics, and performance management

The next step in the process was the development of an Operating Model. An Operating Model is used to understand the organization structure for the enterprise. It provides a way to examine the business in terms of the key relationships between business functions, processes and structures that are required for the organization to deliver its benefit programs and services.

After extensive analysis and deliberation, the Executive Team recommended that CalPERS future organization structure should strike a balance between a customer-centric and a process-centric organization with roles for functional experts. As a result, the Operating Model proposed by the Executive Team for further exploration is a Hybrid Customer and Process Based Organization Structure.

The ETM Project is using the “top down” organization design methodology and the business processes are using the “bottom up” methodology. ETM presented alternative conceptual organization designs for CalPERS to the Executive Team. By definition, a conceptual organization design shows only the top three levels of any organization. For CalPERS, those levels are the CEO, DEOs, AEOs. Based on the specific vision for how the “top” and the “bottom” will work together, the Executive Team has recommended a proposed Conceptual Organization Design.

It is acknowledge the Conceptual Organization Design (top three levels) is not the final answer. It is a “stake in the ground” framework against which detailed design is conducted. Conceptual Organization Design reflects a starting point and is extremely valuable at the beginning of a change project because it:

- Provides a context to balance larger business needs with the new technology capabilities
- Is a comparison point for process redesign, skills assessment and other change activities
- Provides a context in which to compare core business processes from today’s environment (This comparison is called the “fit analysis”)
- Provides a picture that can help guide stakeholder input and the validation process
- Is the basis for designing and testing governance processes and tools (governance is defined as a systematic approach or interaction among key stakeholders for sound decision making and prioritization of new initiatives for the organization)

The Conceptual Organization Design will likely evolve during the detailed design process. At any time in the detailed design process, the following may change in the Conceptual Organization Design:

- Definition of new entities (e.g. Branch, Division)
- Number of positions within the top three levels
- Position titles and levels
- Reporting relationships – both solid and dotted lines

The CalPERS Executive Team requested that ETM continue to develop further detail on the recommended Conceptual Organization Design as described in section 5.2, located on page 45, of the ETM Conceptual Organization Design (Attachment B). This attached document provides detail on methodology and preliminary findings on the Conceptual Organization Design.

Next Steps in the Organization Design Process

It is generally accepted that some degree of organization change is required to implement PSR. This is due to the fact that some current job functions will be completely automated and staff will need to be reassigned to perform new business processes. The PSR technology will also open up over 90 business processes for CalPERS customers to complete on-line.

To further develop and test the proposed Conceptual Organization Design, the following activities are planned:

- The development of a validation team is needed to provide subject matter expertise in order to ensure:
 - that the new organization structure is designed to address the specifics of day-to-day business needs
 - prepares for the emerging needs of the future
 - validation and/or modification of the analysis
 - validation and/or modification of the position definitions as they emerge
- Fit Analysis is conducted to verify that the proposed Conceptual Organization Design works in specific, critical operational settings and ensures effective collaboration is built across the enterprise
- Detailed design work is done to develop the “buckets” of work and define roles and responsibilities within the organization

- ETM will continue the development of the organization design and present the proposed Detailed Organization Design to the Board and the Executive Team (anticipated completion and presentation in July of 2008)
- ETM will develop recommendations for an implementation plan that considers the PSR implementation date and other key business factors in the CalPERS organization (anticipated completion and presentation in February of 2009)

Planned Communication Activities for the Conceptual Organization Design Process

The ETM Project and the Office of Public Affairs has developed a sequence of communication events to present the context and content of this material to all CalPERS staff and interested stakeholders. Attached for your information is the Organization Design Communication Plan (Attachment C).

Some key events are as follows:

- CalPERS Assistant Division Chief Briefing - Introduce the organization design methodology, process, and proposed Conceptual Organization Design. Outline plans for validation team activities and anticipated timelines for the completion of the detailed analysis on the Conceptual Organizational Design.
- Manager and Supervisor Briefing - Introduce the organization design methodology and process. Outline plans for communication of the Conceptual Organizational Design.
- Stakeholder and All-Staff Briefing - Introduce the organization design methodology and process. Outline plans for communication of the Conceptual Organizational Design.

ETM will also conduct feedback mechanisms such as focus groups and surveys for all CalPERS staff in order to prepare the organization for the new business environment. ETM will also use these feedback mechanisms to gain insight into the overall transition readiness of staff.

ETM will continue to inform the Board and seek feedback on a monthly basis, while working with CalPERS Senior Leadership, managers and supervisors, and valued stakeholders.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan but is part of the regular and ongoing workload of ETM.

VI. RESULTS/COSTS:

There are no additional costs associated with this information item.

KRISTIE SANTOS, Chief
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Attachments